
Board Action Bulletin



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NCUA BOARD MEETING RESULTS FOR MAY 20, 2010

Briefing covers operation and funding of the NCUSIF and TCCUSF

Chairman Debbie Matz opened today's NCUA Board meeting noting the first anniversary of the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) and the vital role it played in helping credit unions better manage the costs associated with the corporate crisis. Details of the operation, funding and possible fee assessments of TCCUSF and the National Credit Union Share Insurance Fund (NCUSIF) concluded the meeting.

The TCCUSF was set up by the U.S. Treasury to absorb losses related to corporate credit union investments, and the NCUSIF is the federal insurance fund that stands behind consumer deposits. Today's briefing was NCUA's latest effort to maintain transparency regarding the role, cost and functions of the two funds.

The NCUA Board is responsible for assessing credit unions an amount necessary to repay the Treasury for the \$6 billion lending limit provided by the TCCUSF and for maintaining a strong equity ratio in the case of the NCUSIF. Specifics concerning TCCUSF and NCUSIF Assessment Analyses follow.

The **Temporary Corporate Credit Union Stabilization Fund** authorized NCUA to assess credit unions for corporate losses over a 7-year period, rather than having to do it all in one lump sum.

There are two primary considerations that affect the timing and amount of TCCUSF assessments:

- 1) Total expected losses and the time remaining on the life of the TCCUSF, which is now down to 6 years.

The current reserve for corporate credit union losses is \$6.4 billion. Most recent loss estimates are from \$6.4 to \$11 billion in a pessimistic scenario. The estimates are primarily derived from analysis of expected credit defaults and available capital at the corporate credit unions holding the securities. The specific amount and timing of confirmed defaults on distressed securities are a key variable determining a given year's level of assessment.

- 2) The second key consideration is TCCUSF operational cash management needs. The Stabilization Fund borrowed \$1 billion to acquire from the NCUSIF the capital note at U.S. Central. Last year's Stabilization Fund assessment repaid \$310 million, so \$690 million is still outstanding that needs to be repaid.

An updated analysis of the TCCUSF will be provided to the NCUA Board during the summer along with a recommendation on the amount and timing of the TCCUSF assessment. The Board will also consider whether to separate the TCCUSF assessment from the NCUSIF assessment to clarify each payment and what it is for.

Determining an NCUSIF Assessment

Establishing an NCUSIF premium assessment entails four distinct processes:

1. Estimate the fund's equity level at a given point in time;
2. Estimate how the equity level will trend over the next 6 to 12 months;
3. Analyze the impact of different assessment levels on credit unions;
4. Development a recommendation on the targeted equity level.

Each process has variables associated with making these estimates. Three major variables determine NCUSIF's equity ratio at a point in time: 1) earnings in the fund; 2) insured share growth; and 3) level of loss reserves.

A key objective is to keep the fund above the 1 percent mark so credit unions will not have to impair their contributed capital deposit in the NCUSIF.

When an estimated equity level is determined, we look at a variety of scenarios to determine the impact of an assessment on credit unions -- impact on aggregate and individual credit union earnings levels, the migration of credit unions into lower PCA categories due to the assessments, and the impact on aggregate net worth levels.

Using the forward view of the equity ratio and the impact of assessments on credit unions, we develop recommendations for the Board on whether to bring the ratio back up to our Normal Operating Level of 1.3 percent, to a level between 1.2 and 1.3 percent, or to use our new authorities and drop below 1.2 percent and restore the fund over an 8-year period.

Our consistent message over the past year has been that we did not want to use our 8-year restoration period prematurely. Key factors being analyzed going forward will be industry trends, continued growth in insured shares, the migration of credit unions to lower CAMEL ratings, and the potential for significant losses in specific troubled credit unions.

We are seeing positive signs for the first quarter that may translate into lower general reserve requirements later in the year. The growth of Code 3s and Code 4s seems to have slowed. Aggregate industry earnings are better than expected, delinquency and charge-offs are lower than year-end levels. But one quarter does not make a trend, and so we really need to see what the June 30th numbers reveal before we can make a determination of the need for and the amount of a premium assessment.

The total of the two assessments is projected to be within an estimated 15-to-40 basis points. Complete text of the NCUSIF and TCCUSF assessment analyses are available online at [http://www.ncua.gov/news/press_releases/2010/MA10-0520MatzMarksAnniversaryofStabilizationFund\(2\).pdf](http://www.ncua.gov/news/press_releases/2010/MA10-0520MatzMarksAnniversaryofStabilizationFund(2).pdf).

Temporary Corporate Liquidity Guarantee Program modified

The NCUA Board extended and modified the Temporary Corporate Credit Union Liquidity Guarantee Program (TCCULGP). With the change, corporates can issue new TCCULGP-guaranteed debt through September 30, 2011; however, new issuances after June 30, 2010, must mature no later than September 30, 2012, to receive the TCCULGP guarantee. Debt issued after June 30, 2010, that matures later than September 30, 2012, is not covered by the TCCULGP guarantee.

Previously, new TCCULGP issuances were set to expire June 30, 2010, and issuances under the guarantee were permitted to have maturities through June 30, 2017, providing corporate credit unions access to longer-term stable funds at lower cost. The extension of TCCULGP allows corporate credit unions continued access to more liquidity sources as we move forward to address the corporate credit union legacy assets.

Originally, NCUSIF guaranteed principal and interest payments on certain unsecured debt of participating corporate credit unions. The obligation was transferred from NCUSIF to the Temporary Corporate Credit Union Stabilization Fund June 18, 2009.

Final Mortgage Loan Originator Registration Rule Briefing

NCUA staff provided a briefing on the interagency final rule on mortgage loan originator registration requirements for depository institutions and their employees based on provisions of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (S.A.F.E. Act).

The NCUA Board recently approved its final rule on Parts 741 and 761, by notation vote. It is expected that all federal financial institution regulators and the Farm Credit Administration will approve the interagency rule and it will be published in the Federal Register in coming weeks.

The S.A.F.E. Act mandates a nationwide licensing and registration system for mortgage loan originators, the Nationwide Mortgage Licensing System (NMLS) and Registry. The S.A.F.E. Act specifically prohibits an individual from engaging in residential mortgage loan origination without first obtaining and maintaining: (1) registration as a mortgage loan originator and a unique identifier if employed by a federally regulated institution, or (2) license and registration as a state-licensed mortgage loan originator and a unique identifier.

The NCUA final rule will require credit union employees, including volunteers, who have originated more than five residential mortgage loans during the past 12-months to register with NMLS and Registry and to obtain a unique identifier and maintain the registration. All credit unions originating any residential mortgage loans also will have to adopt, and employees will have to follow, written policies and procedures designed to assure compliance with the rule.

NCUA's regulation contains additional requirements for non-federally insured credit unions participating in the federal registry. Section 761.101(c)(3) addresses how appropriate state supervisory authorities will enter into memoranda of understanding with NCUA. The registry listing for employees of a non-federally insured credit union will contain a clear statement that the credit union is not federally insured.

The final rule is effective 60 days after publication in the *Federal Register*. Compliance is required 180 days after public notice that the NMLS and Registry is accepting federal registrations.

National Credit Union Share Insurance Fund Report

NCUA's Chief Financial Officer reported the Fund's reserve balance totaled \$896.3 million April 30, 2010, with \$177.3 million charged to insurance loss expense thus far in 2010.

The NCUSIF equity ratio declined from 1.26 to 1.24 percent during April primarily due to \$170 million charged to insurances losses during the month. The equity ratio is based on the NCUSIF balance and the amount of insured shares held by the nation's federally insured credit unions at year-end 2009.

Twelve federally insured credit unions have failed thus far in 2010 at a cost to the Fund of \$12.1 million.

There were 357 CAMEL code 4&5 credit unions April 30, 2010, representing 5.94 percent of year-end 2009, total insured shares. This is eight more CAMEL code 4&5 credit unions than reported last month.

The current distribution of federally insured credit union assets by CAMEL code follows:

- 80.7 percent of assets are held in CAMEL code 1&2 credit unions;
- 13.7 percent of assets are in CAMEL code 3 credit unions; and
- 5.6 percent of assets are held in CAMEL code 4&5 credit unions.

Through April, NCUSIF's annual revenue and expenses included total income of \$88.3 million and total expenses of \$226.4 million, resulting in negative net income of \$138.1 million.

The Temporary Corporate Credit Union Stabilization Fund had net income of \$25,284, corporate credit union expense of \$1.03 billion, and interest expense of \$1.7 million at April 30, 2010.

Board votes are unanimous unless otherwise indicated. NCUA rule changes are posted online at www.ncua.gov under Resources/Regulations, Legal Opinions and Laws.